



Just the financial facts, please!

*A Secret Survey of Financial Services in
San Francisco's Mission District*

**MISSION
ASSET
FUND**



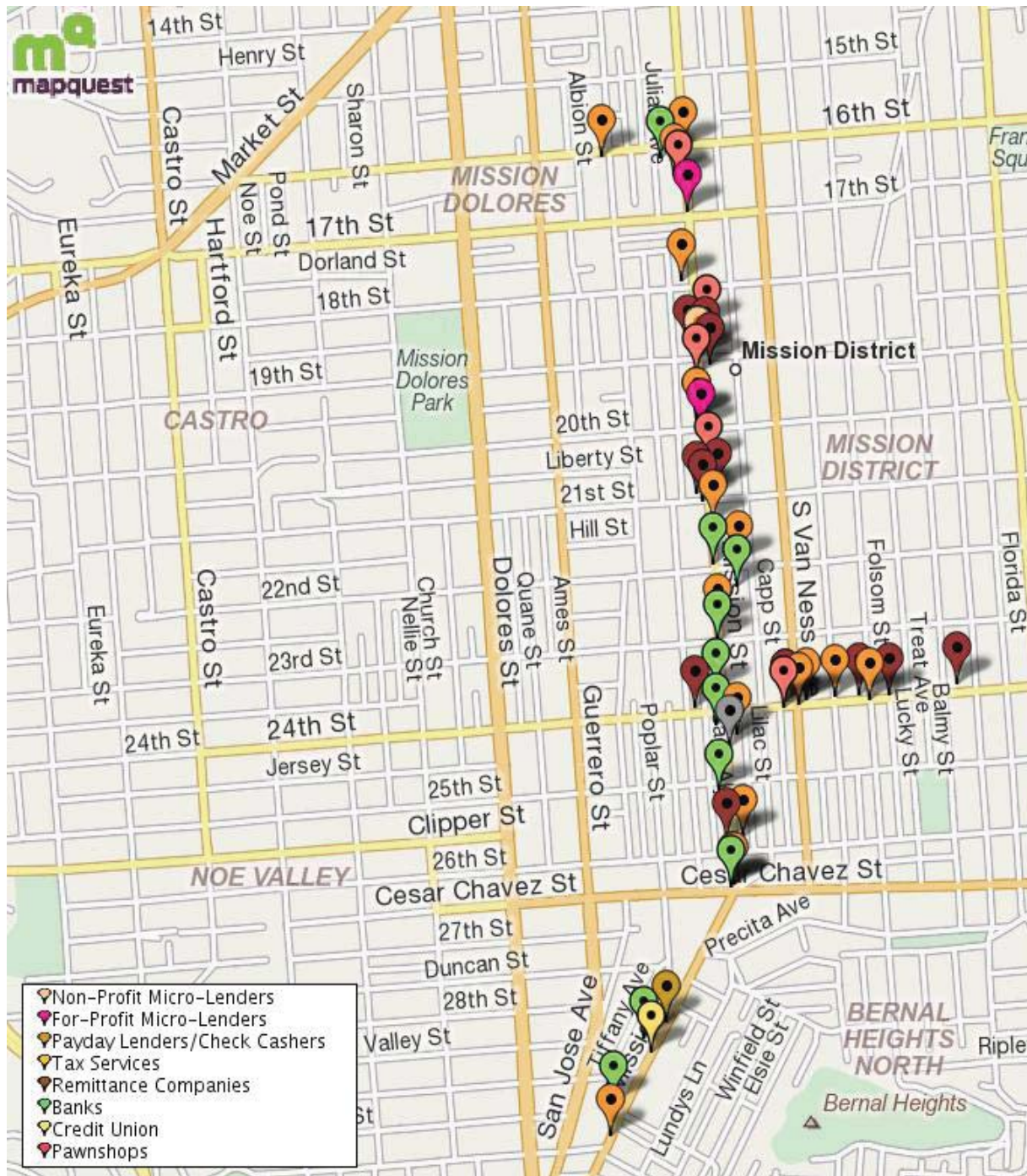
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Financial Service Providers in the Mission District



Introduction

This report uncovers the costs and dynamics of borrowing \$1,000 in the Mission District, a historic immigrant gateway community in San Francisco. In the summer of 2010, the Mission Asset Fund's (MAF) research team conducted an analysis of the 57 different financial service providers in the 94110 zip code. Team members visited the majority of those establishments as secret shoppers to survey and gather information about small consumer loan products offered in the neighborhood.

The survey resulted in the creation of two innovative tools to increase the financial capability of borrowers in the Mission:

- Financial Facts labels, which help consumers make healthy financial decisions, and
- The Responsible Lending and Borrowing Checklist, which helps consumers identify responsible lenders while also evaluating their own accountability as borrowers.

The report concludes by arguing that the newly created Consumer Financial Protection Bureau (CFPB) should require Financial Facts labels on all consumer loan products. The Financial Facts labels are modeled after the Nutritional Facts labels, which the Food and Drug Administration (FDA) developed to inform consumers about the nutritional content in the food that we consume. By creating a standardized, recognizable label that measures the true cost of a loan, borrowers will be better equipped to compare loan products.

The same way that Nutritional Facts label revolutionized nutrition awareness across the country, Financial Facts label can be a seminal tool in changing the consumer-lending experience for millions of Americans.

Increasing Financial Capability in the Mission District

MAF's mission is to help low-income immigrants transition into the financial mainstream and access better opportunities to improve their financial situation. We believe that low-income families can build wealth and financial security if they have accessible, responsible, and affordable financial products and services.

Our mission is complicated by the fact that 44% of Mission households have no credit histories, and over 51% of recent

Mission District in Context

Latino/as Represent:

- 43% of the Mission District
- 14% of the City of San Francisco
- 15% of the United States

The Median Annual Income in...

- San Francisco is \$72,000
- California is \$58,000
- the U.S. is \$51,000

Established Credit:

- 44% of households in the Mission have no credit history
- Nationally, 21% of Latinos have no credit history

Bank Account:

- Approximately 51% of recent Latina/o immigrants in the Mission lack a bank account
- Approximately 6% of San Franciscans lack a bank account
- An estimated 35% of Latinos and 24% of all individuals in the U.S. lack a bank account

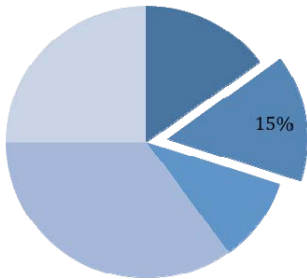
Money Spent on Check Cashers and Payday Lenders

- San Franciscans spend over \$40 million each year
- Nationally, the average person without a bank account will spend 5% of their income at check cashers each year

Sources: American Community Survey, Bank on SF, Social Compact, and Mission Economic Development Agency

Monthly Budget

Consumer Credit Counseling Services of SF provides the following basic monthly budget recommendation:



Assuming \$3,000 after-tax monthly income:

Consumer Debt: 15% = \$450

Includes personal loans, credit cards, student loans, retail installment contracts, tax debts, and medical debt

Transportation: 15% = \$450

Includes car payment, auto insurance, and maintenance

Housing: 35% = \$1,050

Includes rent/mortgage, utilities, insurance and taxes

Savings: 10% = \$300

Recommend having 3 to 6-months income in an emergency fund before saving for other goals.

Other: 25% = \$750

Includes all other expenses, such as food, clothing, and entertainment, insurance

Source:

CCCSF Money Management Planner

immigrants have no bank accounts. For our clients, the path into the financial mainstream is neither straight nor narrow; it's more like an obstacle course riddled with predatory lenders and traps that drain any assets that they may have. Fringe financial services providers –pawnshop, payday, and check-cashing stores– outnumber bank branches four to one in our neighborhood.

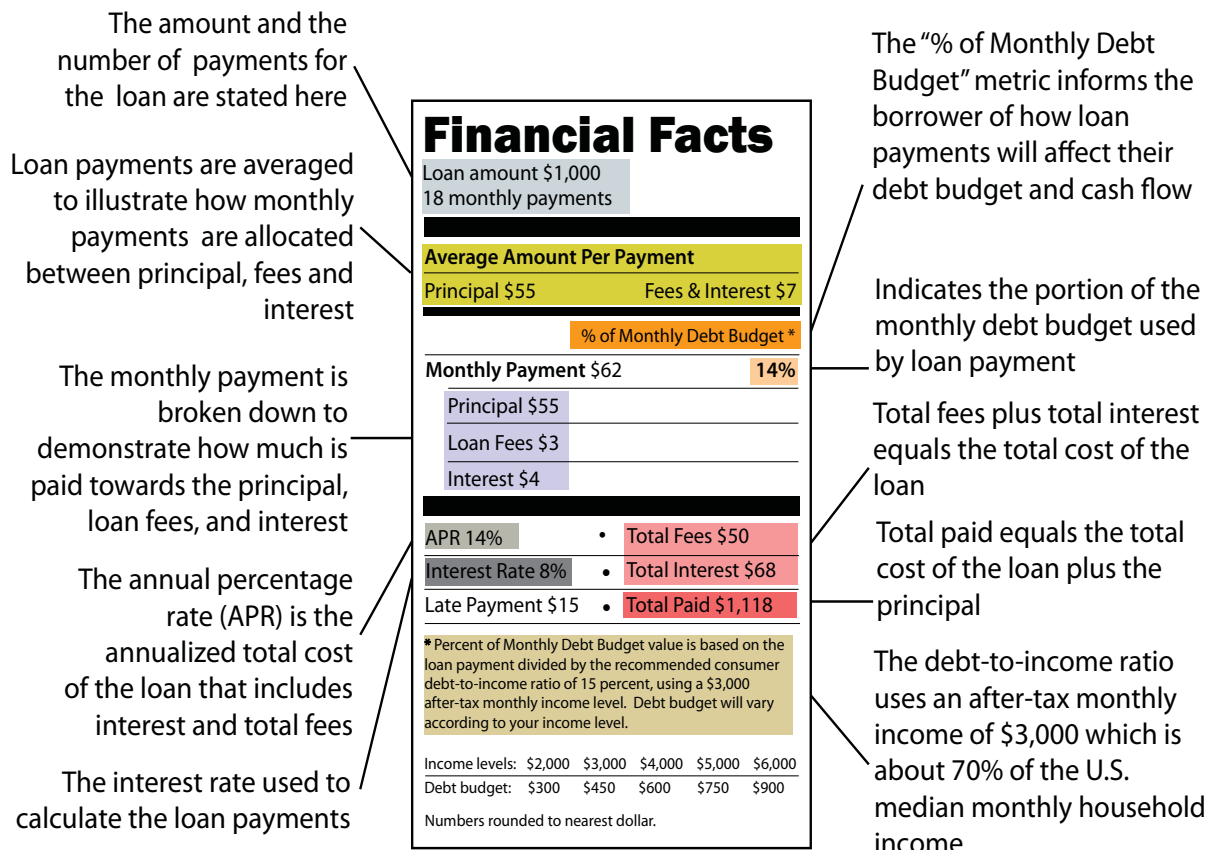
The Mission District is merely a mirror of the rest of the country: payday lending has grown rapidly in the United States since the early 1990s. At the industry's peak a few years ago, there were more payday lenders in the United States than McDonald's and Burger King stores –combined! On Mission Street alone, there are more financial services institutions than taquerias. This is saying a lot, considering that taquerias are part and parcel of the identity of the Mission.

MAF's work is further impeded by the lack of a clear and standardized format to inform borrowers of the true costs and terms of loan products.. Indeed, financial service providers benefit from the complexity of their products, rendering efforts to assess the quality and affordability of loans a daunting task for any borrower.

Hence, the purpose for this report is to introduce new and innovative tools that MAF members, Mission residents, and all borrowers can use to navigate what can be a treacherous financial marketplace. Specifically, this report introduces the Financial Facts label as a tool to inform borrowers of essential loan information in an easy to understand and familiar format. The labels are modeled after the Nutrition Facts labels found on all packaged food and beverage products that provide nutritional content and calorie count of each product, measured against the recommended 2,000 calorie daily diet.

Similarly, the Financial Facts labels informs borrowers on how the monthly payment of a particular loan measures against the recommended \$450 monthly debt budget (based on 15% debt-to-income ratio, using a \$3,000 income level). This new metric, the “% of Monthly Debt Budget” allows borrowers to quickly and easily assess whether they can afford to make loan payments given their income, debt, and cash flow. The label provides a range of income levels and their corresponding “Debt Budgets” to show the total amount of the debt consumers should not exceed. In 2007, the U.S. Census reported that the median annual income for people with income was \$33,196.

The Financial Facts label helps consumers make healthy financial decisions



The Financial Facts labels highlight important loan information in a clear, transparent, and easy to understand format so that borrowers can make healthy financial decisions. MAF introduces the “% of Monthly Debt Budget” metric to help borrowers quickly evaluate their ability to afford a loan by connecting income, debt, and cash flow into a single figure. Borrowers will be able to use the “% of Monthly Debt Budget” metric to compare across different types of loans and determine which is most affordable – and responsible for them to take. Consumers will be able to quickly review critical loan data, including APRs, interest rates, costs, ect. while also comparing how loan payments will affect their budget and cash flow.



Payday Plus

Financial Facts

Loan amount \$500
6 monthly payments

Average Amount Per Payment

| | |
|----------------|---------------------|
| Principal \$83 | Fees & Interest \$8 |
|----------------|---------------------|

% of Monthly Debt Budget *

| | |
|----------------------|-----|
| Monthly Payment \$91 | 20% |
|----------------------|-----|

Principal \$83

Loan Fees \$3

Interest \$5

| | |
|---------|-------------------|
| APR 32% | • Total Fees \$20 |
|---------|-------------------|

| | |
|-------------------|-----------------------|
| Interest Rate 18% | • Total Interest \$28 |
|-------------------|-----------------------|

| | |
|------------------|--------------------|
| Late Payment \$2 | • Total Paid \$548 |
|------------------|--------------------|

* Percent of Monthly Debt Budget value is based on the loan payment divided by the recommended consumer debt-to-income ratio of 15 percent, using a \$3,000 after-tax monthly income level. Debt budget will vary according to your income level.

| | | | | | |
|----------------|---------|---------|---------|---------|---------|
| Income levels: | \$2,000 | \$3,000 | \$4,000 | \$5,000 | \$6,000 |
|----------------|---------|---------|---------|---------|---------|

| | | | | | |
|--------------|-------|-------|-------|-------|-------|
| Debt budget: | \$300 | \$450 | \$600 | \$750 | \$900 |
|--------------|-------|-------|-------|-------|-------|

Numbers rounded to nearest dollar.

The decision to take out a new loan is not an isolated or independent decision. Borrowers have to consider how payments on a new loan will affect their overall cash flow, given all other obligations and responsibilities. The “% of Monthly Debt Budget” metric provides consumers with an easy to understand number to help them assess whether or not they can actually afford the loan.

We also developed a Responsible Lending and Borrowing Checklist to help borrowers identify, assess, and navigate the complex web of financial services in the neighborhood, while also evaluating their own financial standing, before taking out new loans. At MAF, we believe that responsible lending encourages asset building, promotes responsible financial management, and meets the financial needs of customers. We created the Responsible Lending and Borrowing Checklist with these tenets in mind.

Methodology

This study surveyed an array of personal loan products, generally small unsecured loans, from various financial service providers in San Francisco’s Mission District. The survey area was limited to the 94110 zip code. Over the course of eight days in July 2010, researchers conducted in-person visits to approximately 45 financial stores. The majority offered loan products; some others offered a range of non-loan financial services.

The first phase in the research process involved taking an inventory of all services offered by financial companies in the Mission. This entailed conducting a preliminary survey of websites, making phone calls, and visually surveying financial storefront advertisements. With this step accomplished, the research team then developed a continuum of lenders using the following categories: banks, credit unions, non-profit microlenders, for-profit microlenders, payday lenders, and pawnbrokers.

In the second phase of the study, the research team visited financial establishments and inquired about borrowing \$1,000 to pay for a security deposit on an apartment. They presented the following profile: restaurant employee; earns \$1,500 per month; has one credit card carrying a balance; has less than a 690 credit score. Because this profile represents a potentially risky borrower, the loan costs in the Financial Facts labels are calculated using the highest interest rate for those with a cost range (i.e., if a bank’s loan ranged from 9 to 21%, we assumed that a borrower fitting this profile would be charged the highest possible rate). At each company, the researchers spoke with an employee and asked the same information regarding loan amount, loan term, fees, interest

rate, annual percentage rate (APR), and eligibility requirements. The search for a personal loan assumes that the borrower needs the money for a purchase that necessitates using cash, thus entities that offered credit cards are not highlighted in this report. A major purpose for the in-person visits was to understand the products available and the terms and costs associated with them.

Survey of Financial Service Providers and Small Loan Products in the Mission District

Following are brief descriptions of the different types of financial service providers and of a sample loan products offered by each. The Financial Facts labels featured throughout this report, provide a breakdown of loan products discussed below.

Banks

In the Mission, banks are well represented among the mix of other financial service providers. There are seven different mainstream banks in the neighborhood, some of which have several branches, for a total of 10 bank branches. We found that most major banks generally offer clients a mix of four loan options: small loans, personal lines of credit, reserve lines of credit, and credit cards — with many only offering credit cards.

- Personal loans: Only four banks offer small personal loan products with loan amounts ranging from \$500 up to \$10,000, and with APRs ranging from 10 to 26%.
- Personal lines of credit: Some banks also offer personal lines of credit that do not have a finite loan term. Instead, they allow borrowers to access cash and repay on an ongoing, revolving basis. These unsecured-lines of personal credit have flexible amounts available with APRs ranging from 9 to 14% and an ATM-withdrawal cost of 4% or \$15.

Continuum of Lenders

Fringe Lenders



Mainstream Lenders



Small Business

Financial Facts

Loan amount \$1,000
12 monthly payments

Average Amount Per Payment

Principal \$79 Fees & Interest \$8

% of Monthly Debt Budget *

Monthly Payment \$87 19%

Principal \$79

Loan Fees \$4

Interest \$4

APR 17% • Total Fees \$50

Interest Rate 8% • Total Interest \$44

Late Payment \$15 • Total Paid \$1,094

• Percent of Monthly Debt Budget value is based on the loan payment divided by the recommended consumer debt-to-income ratio of 15 percent, using a \$3,000 after-tax monthly income level. Debt budget will vary according to your income level.

| | | | | | |
|----------------|---------|---------|---------|---------|---------|
| Income levels: | \$2,000 | \$3,000 | \$4,000 | \$5,000 | \$6,000 |
| Debt budget: | \$300 | \$450 | \$600 | \$750 | \$900 |

Numbers rounded to nearest dollar.

- Emergency lines of credit/overdraft protection lines: Banks sometimes offer an additional emergency line of credit connected with their client's checking account. These emergency lines have interest rates of approximately 16%.
- Credit cards: All banks offer credit card loans with advertised rates ranged from 11 to 21% APR.

Credit Unions

As cooperatively owned non-profit entities, credit unions in the U.S. tend to be conscious of the needs of their members and are able to offer reasonably priced products and interest rates to their members. Mission SF Federal Credit Union (FCU) is the sole credit union located in the Mission and works to offer accessible products that can help families become financially stable. FCU provides financial counseling, debt consolidation, affordable auto loans, and products that promote asset building. As for loans, the credit union offers an array of different products, two of which are highlighted below:

- The "Signature Loan" is a loan up to \$2,000 with a term of 18 to 24 months, depending on the borrower's monthly disposable income. There is an up-front cost of \$15, and the interest rate is 18.9% with a low credit score and 12.9% with a good credit score.
- The "Payday Plus" loan is a payday loan alternative developed in partnership with the City of San Francisco. Loans of up to \$500 are made to members and non-members alike and are paid over three to six months. Borrowers do not need an established credit history as this product is intended to help them build credit. There is an upfront fee of \$20 and an interest rate of 18%. Payday Plus borrowers are also eligible for a \$50 repayment bonus if the loan is repaid on-time and within six months.

Non-Profit Microlenders

Non-profit microlenders have become an important international, and more recently, national phenomenon that help working people finance their business and personal goals. In the Mission, there are several non-profits that help aspiring, in addition to established, small business owners. Opportunity Fund primarily makes small business loans ranging from \$1,000 to \$2,000 with an 8% interest rate. As a non-profit organization, Opportunity Fund is able to offer subsidized low-cost loans to underserved communities. Similarly,

Women's Initiative for Self-Employment provides access to loans to low-income women entrepreneurs who cannot access mainstream lenders. First-time borrowers can take out loans ranging from \$2,500 to \$10,000 and prior borrowers can apply for up to \$35,000. To qualify for this loan, borrowers must graduate from the Women's Initiative 11-week business course.



Prestamos

For-Profit Microlenders

For-profit microlenders are making inroads in the Mission; there are several providing small consumer loans in the neighborhood. The two that stand out are Progreso Financiero and Apoyo Financiero. Both specifically target and market their services to the Latino, Spanish-speaking community and present their services as a bridge to mainstream banking. Progreso Financiero goes further by aggressively marketing their loans as a way to help borrowers establish credit scores and improve their credit histories. They offer loans ranging from \$500 to \$10,000 with interest rates ranging from 24% to 39%. Like payday lenders, both Progreso and Apoyo Financiero charge the highest possible loan fees allowed: Progreso charges loan fees of \$50 plus interest rates; Apoyo charges \$75 plus interest rates. Both lenders offer borrowers the option to make bi-weekly loan payments, which is generally good for borrowers since this option allows them to make smaller loan payments. The downside of this option is that doubling the number of payments doubles the opportunities to make late payments and incur late payment fees. Progreso Financiero imposes a \$15 late payment fee, and Apoyo Financiero has a \$29 late payment fee for their loans. Lastly, the price structure for these loans does not allow borrowers the possibility of receiving better rates with improved credit scores; both lenders provide fix-rate loans to everyone in their target market regardless of credit risk.

Financial Facts

Loan amount \$1,000
26 bi-weekly payments

Average Amount Per Payment

| | |
|----------------|---------------------|
| Principal \$38 | Fees & Interest \$8 |
|----------------|---------------------|

% of Monthly Debt Budget *

| | |
|-----------------------|-----|
| Monthly Payment \$100 | 22% |
|-----------------------|-----|

Principal \$84

Loan Fees \$4

Interest \$12

APR 35%

• Total Fees \$50

Interest Rate 26%

• Total Interest \$146

Late Payment \$15

• Total Paid \$1,196

* Percent of Monthly Debt Budget value is based on the loan payment divided by the recommended consumer debt-to-income ratio of 15 percent, using a \$3,000 after-tax monthly income level. Debt budget will vary according to your income level.

| | | | | | |
|----------------|---------|---------|---------|---------|---------|
| Income levels: | \$2,000 | \$3,000 | \$4,000 | \$5,000 | \$6,000 |
| Debt budget: | \$300 | \$450 | \$600 | \$750 | \$900 |

Numbers rounded to nearest dollar.

Payday Lenders

In the Mission, at least 20 retail locations offer payday loans. The high concentration of payday lenders would presume an equally high degree of competition to gain greater market share in the neighborhood. In theory, such competition would lead to better services, more efficiency, and even lower prices for consumers. In reality, payday lenders operate more like an oligopoly; they provide the same product at the same price, thereby limiting any real market competition that could benefit the consumer. The payday oligopoly, however, is not a result of conspiring lenders but rather it was created, and is regulated, by state law. The California state law limits payday loan fees to \$15 for every \$100 loaned, with



Prestamos

Financial Facts

Loan amount \$1,600
30 bi-weekly payments

Average Amount Per Payment

| | |
|----------------|----------------------|
| Principal \$53 | Fees & Interest \$10 |
|----------------|----------------------|

% of Monthly Debt Budget *

| | |
|-----------------------|-----|
| Monthly Payment \$136 | 30% |
|-----------------------|-----|

| |
|-----------------|
| Principal \$116 |
|-----------------|

| |
|---------------|
| Loan Fees \$3 |
|---------------|

| |
|---------------|
| Interest \$17 |
|---------------|

| | |
|---------|-----------------|
| APR 29% | Total Fees \$50 |
|---------|-----------------|

| | |
|-------------------|--------------------|
| Interest Rate 24% | Total Interest 246 |
|-------------------|--------------------|

| | |
|-------------------|--------------------|
| Late Payment \$15 | Total Paid \$1,896 |
|-------------------|--------------------|

Warning: This loan exceeds the recommended portion of your monthly debt budget.

* Percent of Monthly Debt Budget value is based on the loan payment divided by the recommended consumer debt-to-income ratio of 15 percent, using a \$3,000 after-tax monthly income level. Debt budget will vary according to your income level.

| | | | | | |
|----------------|---------|---------|---------|---------|---------|
| Income levels: | \$2,000 | \$3,000 | \$4,000 | \$5,000 | \$6,000 |
| Debt budget: | \$300 | \$450 | \$600 | \$750 | \$900 |

Numbers rounded to nearest dollar.

a maximum loan of \$300, including a \$45 loan fee. This means that borrowers obtain \$255 at most with a single payday loan. A typical payday transaction entails a borrower writing the lender a check for \$300 and either receiving \$255 on the spot or having that money deposited into their bank account. On the borrower's actual pay day, the lender deposits the borrower's check as payment. While there are no direct late payment fees, if the borrower lacks sufficient funds by the end of the term, they will be charged insufficient funds (NSF) fees by their bank, ranging from \$20 to \$40. To avoid such fees, payday borrowers often opt to take out another payday loan to pay off the first.

Payday lenders are often thought of as the sharks of the financial services industry, preying on an unsuspecting and/or desperate clientele. And yet, Progreso Financiero, a lender who uses the marketing tagline "we understand your needs," may not be so understanding in the long run. The Financial Facts labels reveal some striking similarities between the cost of payday loans and loans from for-profit microlenders. For example, it costs \$45 dollars to borrow \$255 in a single payday loan. At Progreso Financiero, borrowers pay \$196 to borrow \$1,000. Both the principle and cost of one Progreso loan are approximately the same as four payday loans combined: four payday loans equal to \$1,020 borrowed with a total cost of \$180. The similarities are even more apparent when comparing the ratios between the principal amount and the total amount paid for the payday loans and Progreso loans. For payday loans, the ratio of the principal amount (\$255) versus the total amount paid for the loan (\$300) is: .85. This means that .15 is the portion used to pay the loan fees (\$45). The ratio for a Progreso loan (\$1,000 in principal / \$1,196 in total paid) is: .83. This means that .17 is the portion used to pay the loan fees. From total cost comparison, Progreso loans are actually more expensive than payday loans. Their monthly payments, however, are significantly more affordable: the "% of Monthly Debt Budget" for Progreso's loan rates at 20%, versus 67% for payday loans.

Pawnbrokers

Prior to the popularity of payday lenders, pawnbrokers were the lenders of last resort —or the first for those who could not access mainstream loans. In the Mission, pawnbrokers continue to be prevalent despite the rise in payday lenders in the area. There are five pawnbrokers clustered at the heart of Mission Street. Generally, loans are based on the value of the collateral that is pawned. The amount of money that is loaned is equal to about a third of the item's resale value.

Pawnshops are regulated by California law, which outlines the maximum fees that can be charged for specific loan amounts, as well as placing limits on the fees that can be charged for various reasons like processing (\$5), notification (\$3), and storage fees (\$5-\$20). According to California regulations, clients have up to 120 days (4 months) to pay back their loan, with a 10-day grace period available without penalty. Failure to pay the loan results in the loss of the pawned collateral.

During our study, researchers entered the five pawnshops in the Mission and inquired about loans of \$1,000, which required a major jewelry deposit such as a diamond or a heavy gold chain. Pawnshops were the least difficult entities in our study to fulfill loan requirements: they required physical collateral but no bank statement, proof of income, or credit check. While different shops varied in cost and loan term, a fairly representative example of the Mission's pawnshops offered loans of \$1,000 with a fee of \$70, plus ticket writing fee of \$5 for a period of 3 months. The \$75 total fee –along with the principal– is paid all at once at the end of the term, rather than being spread out each month. The Financial Facts label for a \$1,000 pawnshop loan paid over two months, results in an APR of 43%. The issue with these loans is the requirement of one balloon payment that results in “% of Monthly Debt Budget” of 239%. For many borrowers, this means they would continue to have a difficult time balancing their budget.

Check Cashers

At least 25 retail shops in the 94110 zip code offer check cashing services, ranging from small corner stores to stores specializing in check cashing. While check cashers typically do not originate loans, check cashers offer an array of different financial products and services. Similarly, the majority of payday lending establishments also offer check-cashing services. In the Mission, the check cashing stores visited charge between 1 to 5% of the check amount.

Remittance Centers

Due to the large immigrant population in the Mission, an abundance of remittance providers are located in the neighborhood. At least 12 retail locations primarily provide remittance services, most of the payday lender/check casher companies, some banks, and the credit union offer remittances services. Most of the 12 remittance providers also offer other financial services such as tax services, bill pay, travel bookings, debit cards, phone cards, and package/gift delivery to other countries.



Payday Loan

Financial Facts

Loan amount \$255
1 payment over 14 days

Average Amount Per Payment

| | |
|-----------------|----------------------|
| Principal \$255 | Fees & Interest \$45 |
|-----------------|----------------------|

% of Monthly Debt Budget *

| | |
|-----------------------|-----|
| Monthly Payment \$300 | 67% |
|-----------------------|-----|

Principal \$255

Loan Fees \$45

Interest \$0

APR 460% • Total Fees \$45

Interest Rate 0% • Total Interest \$0

Late Payment \$0 • Total Paid \$300

Warning: This loan exceeds the recommended portion of your monthly debt budget.

• Percent of Monthly Debt Budget value is based on the loan payment divided by the recommended consumer debt-to-income ratio of 15 percent, using a \$3,000 after-tax monthly income level. Debt budget will vary according to your income level.

Income levels: \$2,000 \$3,000 \$4,000 \$5,000 \$6,000

Debt budget: \$300 \$450 \$600 \$750 \$900

Numbers rounded to nearest dollar.



Pawn / Collateral

| Financial Facts | |
|---|---|
| Loan amount \$1,000 1 payment over 2 months | |
| Average Amount Per Payment | |
| Principal \$1,000 | Fees & Interest \$75 |
| % of Monthly Debt Budget * | |
| Monthly Payment \$1,075 | 239% |
| Principal \$1,000 | |
| Loan Fees \$75 | |
| Interest \$0 | |
| APR 43% | • Total Fees \$75 |
| Interest Rate 0% | • Total Interest \$0 |
| Late Payment \$0 | • Total Paid \$1,075 |
| Warning: This loan exceeds the recommended portion of your monthly debt budget. | |
| * Percent of Monthly Debt Budget value is based on the loan payment divided by the recommended consumer debt-to-income ratio of 15 percent, using a \$3,000 after-tax monthly income level. Debt budget will vary according to your income level. | |
| Income levels: | \$2,000 \$3,000 \$4,000 \$5,000 \$6,000 |
| Debt budget: | \$300 \$450 \$600 \$750 \$900 |
| Numbers rounded to nearest dollar. | |

Responsible Lending and Borrowing Checklist

In the course of conducting this study, we found a highly complex and confusing marketplace comprised of 57 different financial services institutions in the neighborhood. Even for the most sophisticated borrowers, navigating through these institutions to avoid predatory lenders and other traps proved very challenging. And while we may have a good conceptual understanding of the difference between predatory and responsible lending, in practice it can be hard to distinguish between the two. Hence the reason why we created the Responsible Lending and Borrowing Checklist to serve as a guide for borrowers. Following are brief descriptions of the key elements we used to develop the Checklist.

Transparency

A lender's level of transparency refers to customer ease in acquiring full product information, and the point in the application process when that information is actually provided. The "full terms of a loan product" is defined as any fees charged for processing, administrative time, or membership; the length of the loan; the interest rate and the APR; and the necessary loan qualifications. Therefore, a transparent lender is one that reveals the full terms of the loan clearly and early in the loan inquiry process. When evaluating a lender, it is necessary to know at what point the full cost of the loan is disclosed; revealing important pieces of loan information midway through the inquiry process or after clients sign the loan agreement signifies a lack of transparency. Ideally, the lenders reveal all of this information up front regardless of the customer's prior knowledge or ability to ask the "right" questions to understand the terms of the agreement.

Underwriting

Responsible underwriting refers to whether lenders account for a borrower's current income and debt. Underwriting on the basis of income ensures that the borrower has a source of income and indicates their capacity to repay the loan. Indicators of income underwriting are requiring borrowers to present recent pay stubs in addition to self-reporting their monthly income on a loan application. Underwriting on the basis of debt involves reviewing the borrower's debt to assess whether new debt would cause the applicant to become overly indebted and unable to repay.

While it is certainly the borrower's responsibility to ensure they are not taking on too much debt, the lender would ideally practice debt

Responsible Lending and Borrowing Checklist

Use this checklist to help identify and evaluate responsible lending practices and decide whether to take out additional loans responsibly. Be cautious if there are more than 2 or 3 "No" answers to the following questions:

Key Loan Facts:

| Lender | Loan Amount | Interest Rate | Total Cost | Monthly Payment | Your Debt Budget |
|--------|-------------|---------------|------------|-----------------|------------------|
| | | | | | |

Questions to consider about lenders and loans:

| | | |
|-----|----|--|
| Yes | No | Has the lender explained the following loan details upfront and in writing? <ul style="list-style-type: none"> • Interest rate and APR • Total amount you will pay for the loan (including any fees & total interest) • Average monthly payment • Length of the loan • How often payments are due • What will happen if you are late on a loan payment |
| Yes | No | Do the loan company employees treat you with respect? |
| Yes | No | Are loan documents translated in your preferred language? |
| Yes | No | At the point of application, is the lender concerned with your ability to repay? |
| Yes | No | Are you asked for proof of income? |
| Yes | No | Are you asked how much you pay each month toward other loans? |
| Yes | No | Are you required to have a credit history? If so, is it reviewed? |
| Yes | No | Does the lender report your payments to credit agencies? |

Questions to consider about you and your ability to afford the loan:

| | | |
|-----|----|---|
| Yes | No | Do you feel comfortable with the loan application process (i.e. you are not being pressured to apply for the loan)? |
| Yes | No | Could you obtain a better interest rate for the loan if your credit score is higher? |
| Yes | No | Have you compared the total loan cost to other similar loans from other lenders? |
| Yes | No | Have you calculated your monthly debt budget, recommended at 15% of your income? |
| Yes | No | Do you have fewer than 4 outstanding loans? |
| Yes | No | Is the monthly payment for the loan less than 25% of your monthly debt budget? |



Personal Loan

Financial Facts

Loan amount \$1,000
12 monthly payments

Average Amount Per Payment

Principal \$83 Fees & Interest \$9

% of Monthly Debt Budget *

Monthly Payment \$92 20%

Principal \$83

Loan Fees \$0

Interest \$9

APR 19%

• Total Fees \$0

Interest Rate 19% • Total Interest \$105

Late Payment \$10 • Total Paid \$1,105

* Percent of Monthly Debt Budget value is based on the loan payment divided by the recommended consumer debt-to-income ratio of 15 percent, using a \$3,000 after-tax monthly income level. Debt budget will vary according to your income level.

| | | | | | |
|----------------|---------|---------|---------|---------|---------|
| Income levels: | \$2,000 | \$3,000 | \$4,000 | \$5,000 | \$6,000 |
| Debt budget: | \$300 | \$450 | \$600 | \$750 | \$900 |

Numbers rounded to nearest dollar.

underwriting as well. This is done by reviewing the borrower's credit report, noting the percent of monthly income that is going towards paying off debt, and assessing how much a new loan would affect the borrower's debt budget.

Customer Service

The treatment of clients may be subjective, it is nonetheless an extremely important factor in determining responsible lending practices. Client services refer to language availability offered by an institution, including customer service and loan documents, and the pace of the conversation (i.e. is the explanation rushed and uninterested or too interested and pushy?). Loan pushing and steering is a clear characteristic of "predatory lenders," where the lender steers customers towards products that are unnecessarily expensive or risky. If employees are incentivized to push loans on people, or to be aggressive in their marketing tactics, this is a warning sign of a predatory lender.

Cost

The cost of a loan is an important indicator in determining responsible lending and borrowing practices. The Checklist highlights this element to ensure that borrowers realize the full loan cost, up front and in writing well before they obtain a new loan. We also encourage borrowers to exercise their market power by shopping to ensure that they can get the best priced loans.

Affordability

Lastly, a key factor in determining responsible borrowing is affordability: do borrowers know if they can actually afford to make the loan payments before agreeing to take out new loans? This question is at the heart of the Checklist and the Financial Facts labels. The Checklist explicitly asks questions related to a borrower's obligations and debt budget to force them to think about what is their capacity to assume new loans.

Conclusion

Our survey illustrated not only the complexity of the marketplace, but also the futility of labeling a set of lenders as predatory –or bad lenders– to alert clients to steer clear. We realized that the only strategy with a lasting impact is one that increases a borrower's ability to assess lenders and loan products independently.

The Financial Facts labels and the Responsible Lending and Borrowing Checklist are designed to aid consumers in their quest for affordable and responsible loans. The Financial Facts labels provide consumer loan information in a clear, transparent and easy to understand format. The Responsible Lending and Borrowing Checklist guides borrowers through a set of questions about lenders, loans, and their own financial circumstances in order to assess whether they can afford to take out new loans.

These important, new tools can serve as models for reducing predatory and irresponsible lending in the Mission, in communities throughout San Francisco and across the country. Indeed, the Mission District is not alone in dealing with a high concentration of fringe financial service providers targeting low-income communities.

It is our hope that this report will ignite a deeper conversation with advocates in the asset-building field, bank-on initiatives, and other thought leaders to advocate for a standardized, easy-to-read and easy-to-access format for disclosing critical information on installment loans, transactional products, and other consumer financial products.

The opportunity to move an agenda for clear and transparent consumer loan disclosures is now. The newly created Consumer Financial Protections Bureau (CFPB) has the power to regulate the format and content of how lenders disclose loan terms. We recommend that the CFPB mirror the successful campaign by the FDA in disclosing nutritional facts, as demonstrated in this report. In addition, policy makers should provide the means for lenders to comply easily with such regulations. This could be done by creating an online widget where lenders and borrowers can visit and provide key loan information, and print personalized Financial Facts labels in real time. Such a widget should also be able to create similar labels for an array of different financial products including mortgages, checking accounts and other transactional products.

The Nutritional Facts labels revolutionized the way people shop for and make decision about the food they buy. Prior to the labeling requirement, for example, consumers were unaware of the dangers and pervasiveness of trans fats. Today many cities across America have passed legislation barring food with trans fats precisely because food safety, health advocates, and most importantly, the public knows the ubiquity of trans fats in commercially produced food. The Financial Facts labels can provide the same insights for borrowers assessing the cost and affordability of loans, which ultimately impact their financial health.



Signature Loan

| Financial Facts | |
|---|------------------------|
| Loan amount \$1,000 18 monthly payments | |
| Average Amount Per Payment | |
| Principal \$56 | Fees & Interest \$9 |
| % of Monthly Debt Budget * | |
| Monthly Payment \$65 | 14% |
| Principal \$56 | |
| Loan Fees \$1 | |
| Interest \$8 | |
| APR 20% | • Total Fees \$15 |
| Interest Rate 18% | • Total Interest \$151 |
| Late Payment \$2 | • Total Paid \$1,166 |
| * Percent of Monthly Debt Budget value is based on the loan payment divided by the recommended consumer debt-to-income ratio of 15 percent, using a \$3,000 after-tax monthly income level. Debt budget will vary according to your income level. | |
| Income levels: \$2,000 \$3,000 \$4,000 \$5,000 \$6,000 | |
| Debt budget: \$300 \$450 \$600 \$750 \$900 | |
| Numbers rounded to nearest dollar. | |

List of all financial institutions in the Mission District (94110 zip code)

arranged in order of location:

1. 1398 Valencia: Women's Initiative
2. 500 Valencia: Money Mart
3. 3027 16th: Wells Fargo
4. 2005 Mission: United Cash a Check
5. 2038 Mission: Ace Cash Express
6. 2050 Mission: A to Z Pawnbrokers
7. 2091 Mission: Apoyo Financiero
8. 2196 Mission: Cash Plaza Multiservice
9. 2255 Mission: Eagle Loan Office
10. 2286 Mission: Envios de dinero
11. 2293 Mission: Afex
12. 2301 Mission: Opportunity Fund
13. 2301 Mission: Mission Asset Fund
14. 2301 Mission: Nexxo
15. 2318 Mission: Mission Jewelry and Loan
16. 2390 Mission: Checkers International
17. 2390 Mission: Mex Express
18. 2400 Mission: Progreso Financiero
19. 2449 Mission: Best Collateral
20. 2485 Mission: Dolex Dollar Express Inc
21. 2498 Mission: Ria
22. 2500 Mission: Banco Agricola
23. 2531 Mission: California Check Cashing Stores
24. 2595 Mission: Wells Fargo
25. 3154 22nd: Fast Money
26. 2601 Mission: US Bank
27. 2679 Mission: Quick Check Cashing Stores
28. 2701 Mission: Bank of America
29. 2776 Mission: Sterling Bank & Trust
30. 2812 Mission: Bank of the West
31. 2831 Mission: Any Kind Check Cashing
32. 2853 Mission: Rent-a-center
33. 2978 Mission: Nexxo Financial Corporation
34. 3225 Mission: Liberty tax
35. 4919 Mission: Mission Check Cashiers
36. 2966 24th: Orlando Valuto-Giros
37. 2811 24th: Mission Check Cashier
38. 2813 24th: Income Tax Service
39. 3026 24th: Liberty Tax
40. 3070 24th: Mex express
41. 3100 24th: PS Liquors Western Union
42. 3205 24th: Monserrat's Gold Jewelry and Loan
43. 3216 24th: Giromex
44. 3194 24th: United Check Cashing/
Mission Check Cashiers
45. 3338 24th: Yojoa
46. 993 Shotwell: Quick Check Cashing Stores
47. 3100 24th: CK Check Cashing
48. 3196 24th: KK Multiservice
49. 2900 Mission: Chase
50. 2989 Mission: Dolex Dollar Express Inc.
51. 3010 Mission: Check n Go
52. 3011 Mission: Army Check Cashing
53. 3060 Mission: Mission National Bank
54. 3250 Mission: Bank of America
55. 3269 Mission: Mission SF Federal Credit Union
56. 3350 Mission: Wells Fargo
57. 3373 Mission: Mission Check Cash Center (Money Mart)

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About the Mission Asset Fund

Created in 2007 with seed funding from the Levi Strauss Foundation, the Mission Asset Fund (MAF) is a San Francisco nonprofit organization working to expand access to financial services, savings and investment opportunities for working poor families in the Mission District. In just three of years of operation, MAF has received national recognition for our innovative and effective asset-building programs and services that are having a marked and real impact on the lives of Mission District residents.

MAF would not be possible if not for the Board of Directors' wise guidance, and for staff's passion in seeing immigrant families succeed in life.

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Charles Schwab Foundation

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